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FUNDTRACK

Best Stock Fund of the Decade

By ELEANOR LAISE

Meet the decade's best-performing U.S. diversified stock mutual fund: Ken Heebner's $3.7 billion CGM Focus Fund, which rose more than 18% annually through Tuesday and outpaced its closest rival by more than three percentage points.

Too bad investors weren't around to enjoy much of those gains. The typical CGM Focus shareholder lost 11% annually in the 10 years ending Nov. 30, according to investment research firm Morningstar Inc.

These investor returns, also known as dollar-weighted returns, incorporate the effect of cash flowing in and out of the fund as shareholders buy and sell. Investor returns can be lower than mutual-fund total returns because shareholders often buy a fund after it has had a strong run and sell as it hits bottom.

At the close of a dismal decade for stocks, the CGM Focus results show how even strategies that work well don't always pay off for investors. The fund, a highly concentrated portfolio typically holding fewer than 25 large-company stocks, offers "a really potent investment style, but it's really hard for investors to use well," says Christopher Davis, senior fund analyst at Morningstar.

The gap between CGM Focus's 10-year investor returns and total returns is among the worst of any fund tracked by Morningstar. The fund's hot-and-cold performance likely widened that gap. The fund surged 80% in 2007. Investors poured $2.6 billion into CGM Focus the following year, only to see the fund sink 48%. Investors then yanked more than $750 million from the fund in the first eleven months of 2009, though it is up about 11% for the year through Tuesday.

"A huge amount of money came in right when the performance of the fund was at a peak," says Mr. Heebner, the fund's manager since its 1997 launch. "I don't know what to say about that. We don't have any control over what investors do."

Among bond funds, the decade's top performer is GMO Emerging Country Debt, which rose 15% annually in the 10 years ended Tuesday. Though that fund also had its share of volatility, investors fared well, trailing only about one percentage point behind the fund's total returns in the 10 years ended in November. The GMO fund caters mainly to big institutions, while the CGM fund is more accessible to small investors.

How will CGM and GMO fare in the future? Tom Cooper, co-manager of the GMO fund, thinks emerging-market bonds can deliver 8% to 10% annual returns in the next decade. As for Mr. Heebner, though the stock market had a huge rebound this year, he says, "for individual companies, there's a lot of potential not yet realized."

Highs and Lows

Here's a look at the best- and worst-performing U.S. diversified stock mutual funds over the past 10 years.

Fund	Category	10-year annualized total return
BEST		
CGM Focus	Large cap growth	18.2%
Lord Abbett Micro Cap Value I	Small cap blend	14.8%
Robeco Small Cap Value II Inv	Small cap value	14.0%
RS Partners A	Small cap blend	14.0%
Fairholme	Large cap blend	13.6%
WORST		
Frontier MicroCap	Small cap blend	–35.6%
Embarcadero Small-Cap Growth	Small cap growth	–25.1%
Embarcadero Alternative Strategies	Mid-cap growth	–20.6%
Embarcadero All-Cap Growth	Small cap growth	–17.6%
First American Mid Cap Select A	Mid-cap blend	–13.9%

Source: Morningstar Note: Data through Dec. 29, 2009. Excludes leveraged funds.

RS investments

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Rankings were provided to Wall Street Journal by Morningstar and include all diversified equity funds (excluding sector funds and leveraged funds). Rankings are based on the funds' total returns for the ten-year period ending December 29, 2009.

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RS Partners Fund (RSPFX) Performance† (Average Annual Total Returns as of 12/31/09)

	Fourth Quarter 2009	1-Year	3-Year	5-Year	10-Year	Since Inception (7/12/95)
RS Partners Fund, Class A						
without sales charge	4.91%	43.67%	-5.33%	1.10%	13.60%	11.35%
with maximum sales charge	-0.08%	36.83%	-6.85%	0.12%	13.05%	10.97%
Russell 2000® Value Index[1]	3.63%	20.58%	-8.22%	-0.01%	8.27%	9.11%

Performance returns for periods of less than one year are not annualized.

RS Partners Fund: Sector Allocation[2] (As of 12/31/09)

Financial Services	40.23%
Consumer Discretionary	17.73%
Technology	11.02%
Health Care	10.11%
Energy	8.48%
Materials and Processing	4.83%
Utilities	1.71%
Consumer Staples	0.74%
Cash	5.16%

RS Partners Fund: Top Ten Holdings[3] (As of 12/31/09)

Coinstar, Inc.	3.72%
Magellan Health Services, Inc.	3.70%
ACI Worldwide, Inc.	3.51%
Denbury Resources, Inc.	3.16%
Comverse Technology, Inc.	2.99%
Scientific Games Corp.	2.80%
The Cooper Cos.	2.79%
Compass Minerals International, Inc.	2.62%
Jack Henry & Associates, Inc.	2.55%
BorgWarner, Inc.	2.44%

† Performance quoted represents past performance and does not guarantee future results. Investment return and principal value will fluctuate, so shares, when redeemed, may be worth more or less than their original cost. Please keep in mind that any high double-digit returns are highly unusual and cannot be sustained. The Fund's total gross annual operating expense ratio as of the most current prospectus is 1.53% for the Class A shares. Class A performance quoted "with maximum sales charge" reflects the current maximum sales charge of 4.75%. Please read the prospectus carefully for more information on sales charges as they do not apply in all cases and if applied are reduced for larger purchases. Certain share classes are subject to lower maximum sales charges whether paid at the time of purchase or deferred. Any sales charges are in addition to the Fund's fees and expenses as detailed in the Fund's most current prospectus. Fees and expenses are factored into the net asset value of your shares and any performance numbers we release. Total return figures reflect an expense limitation in effect during the periods shown; without such limitation, the performance shown would have been lower. Performance results assume the reinvestment of dividends and capital gains. The return figures shown do not reflect the deduction of taxes that a shareholder may pay on Fund distributions or the redemption of Fund shares. Current and month-end performance information, which may be lower or higher than that cited, is available by contacting RS Investments at 800-766-3863 and is frequently updated on our Web site: www.RSinvestments.com.

1 The Russell 2000® Value Index is an unmanaged market-capitalization-weighted index that measures the performance of those companies in the Russell 2000® Index with lower price-to-book ratios and lower forecasted growth values. (The Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000® Index, which consists of the 3,000 largest U.S. companies based on total market capitalization.) Index results assume the reinvestment of dividends paid on the stocks constituting the index. You may not invest in the index, and, unlike the Fund, the index does not incur fees and expenses.

2 The Fund's holdings are allocated to each sector based on their Russell classification. If a holding is not classified by Russell, it is assigned a Russell designation by RS Investments. Cash includes short-term investments and net other assets and liabilities.

3 Portfolio holdings are subject to change and should not be considered a recommendation to buy or sell individual securities.

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